

## **Corporate Social Responsibility in the Board Room: The Need for a Coherent Business Case**

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### **Abstract**

Much has been made in recent years of the advantages to business of being a good corporate citizen; numerous studies now show a positive link between financial performance and ethical behavior. There is however little work which explores the role of the board and in particular how Non Executive or Outside Director (NEDs) affect corporate behavior.

This study into the role and contribution of the Non Executive Director highlights an interesting dilemma; the majority of work in the boardroom is quantitative in nature. For many boardroom members especially those not working on a day to day basis within the organization, the very complexity of steering a large organization requires that data be presented in an easy to follow numerical format, and that a business case be established for individual projects. As a result of this NEDs are typically uncomfortable with the label CSR, which for them has connotations of simply “giving away profits”. Many NEDs in the study seemed to prefer the term “Corporate Responsibility” which for them implies a more reciprocal approach, whereby the organization establishes projects which then either directly or indirectly provide a straight forward return to the company for example; a company working in Africa establishes a number of HIV programs to ensure a healthy workforce, thereby lowering risk, and in doing so increases political support, raises worker moral and improves corporate reputation.

The unwillingness of some academics to accept the need for a business case for CSR, are missing an important point, most business's once on the road to good corporate citizenship are reluctant to assume the reputational risk of losing that label, and will over the long-term become better and more responsive companies. If boards are presented with a strong business argument for good citizenship they are likely to grasp it enthusiastically. Critically, once such issues are on the agenda they would appear to stay there, in addition once individual NEDs, as boundary spanners are educated about the importance of good citizenship, particularly in terms of risk and reputation, they are likely to take that insight to other boards on which they sit.

## **Introduction**

In the “information” or “new” economy, organisational boundaries are becoming harder to distinguish. For example, the boundary between countries and multinational corporations is increasingly blurred. Multinationals are required to act more like states whilst countries act more like firms (Monbiot, 2000; Hilton and Gibbons, 2002). Well publicised corporate scandals, such as Enron and WorldCom along with environmental disasters such Union Carbide in Bhopal, and revelations of retailers producing designer products in third world sweat shops, have led to much debate about the dilemmas decision-makers face in being simultaneously good managers and maximizing shareholder value, whilst at the same time balancing the needs and requirements of society, to behave in a way that is both ethical and equitable towards the needs of stakeholders (see for example Sundman, 2000; Hosmer, 1994; Stark, 1993; Freeman E, 1994; Wicks A, 1996).

This dilemma may be a misleading one. Research suggests that organizations that are perceived to behave in a way that is respectful of the needs of stakeholders, and maintain and develop a good reputation, are also likely to be more profitable compared to those organizations which rely solely on profitability as their end goal (Roman et al. 1999; Caccese, 1997; Vergin and Qoronfleh, 1998; Szwajkowski and Figlewicz, 1997: 369; Petrick et al. 1999). Thus it is argued that to be a good manager, one must be seen to discharge equitably the duties owed to organizational stakeholders so as to sustain and enhance corporate reputation and organizational legitimacy.

This paper presents findings from an exploratory study, into the role and contribution of the Board of directors, within the so-called Anglo American governance system; it focuses specifically on the role of the Non Executive Director and their affect on corporate social performance within the organizations in which they operate.

## **The Role of the Non Executive Director**

Non Executive Directors (NEDs) provide “the formal link between the shareholders of a firm and the managers entrusted with the day to day functioning of the organization” (Forbes and Milliken, 1999); they are sometimes referred to as “part time”,

“independent” or “outside” directors. An NED’s knowledge of the complex business environment and their position outside the organization provides them with a unique vision of the system that surrounds and maintains organizational ‘well-being’. They are in a unique position, privy to the inner workings of the organization and yet, in theory at least, independent of it.

However, despite their seemingly pivotal role in the running of organizations NEDs have not received a great deal of attention from the academic community (Oliver, 2000; Forbes and Milliken, 1999: 489; McNulty and Pettigrew, 1999; Kakabadse et al., 2001). Most writing in this area has been either practitioner-based or of a more prescribed nature (Pettigrew, 1992 :165; McNulty and Pettigrew, 1999: 48). With most analysis being performed based on publicly available statistical data. This may be due to the difficulties faced by researchers in gaining access to these often high-profile, busy individuals and partly also, as Kahl wrote, because “those who sit amongst the mighty do not invite sociologists to watch them make the decisions about how to control the behavior of others” (Kahl, 1957: 10) Little documentation exists regarding their contribution to corporate strategy or their influence on corporate behavior (McNulty and Pettigrew, 1999; Forbes and Milliken, 1999: 489).

McNulty and Pettigrew (1999) found that NEDs were able to play an influencing role in the setting of strategy. Their findings contradict the common belief that NEDs act merely as a rubber stamp to the desires of the Executive. Their research showed that although most proposals were ratified by the board once they reached the committee stage, the Executive was forced to spend a great deal of time behind the scenes ensuring that their plans would meet with the approval of the board. Thus unacceptable plans rarely ever even reach the official table. This study not only confirms McNultys and Pettigrew’s (1999) findings, but also proposes that many NEDs have a more direct role than previously recognized in their organizations strategic direction.

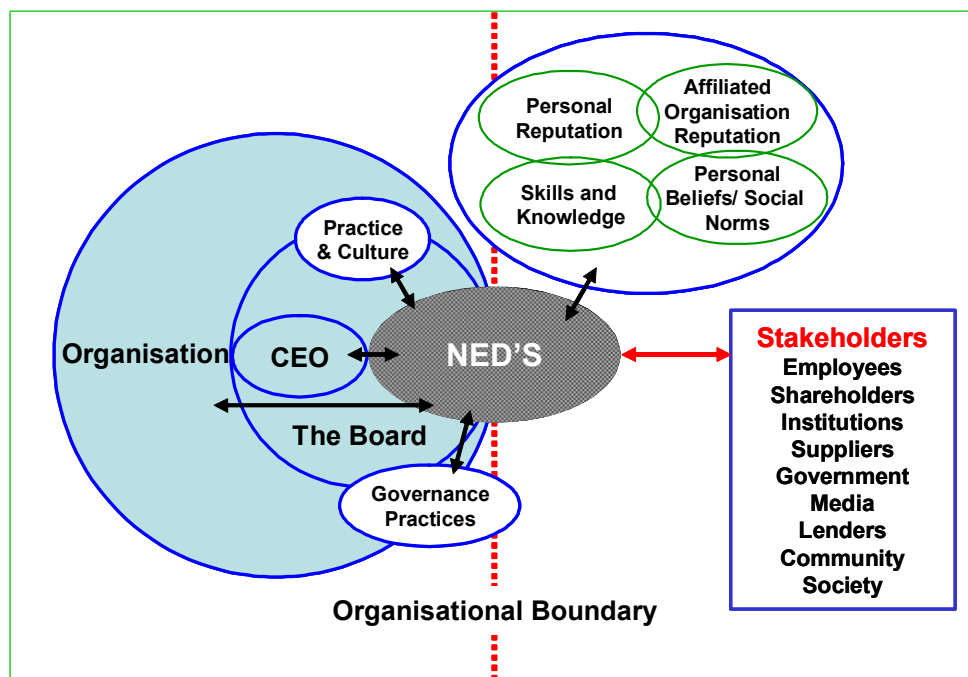
Kakabadse et al. (2001), in their study of the role and contribution of NEDs, found that NEDs influence strategic behavior. They noted that the role of NEDs has become much more professional, with many boards now using specialist recruitment agencies to find

prospective NEDs with specific knowledge and skills. Another important finding of this study was that the heterogeneous nature of boards and their members creates a steep learning curve for new NEDs, who need to adapt quickly to the culture and customs of the board in order to make a recognisable or meaningful contribution.

## Boundary Spanning

The importance of boundary spanners, i.e. individuals who span the boundary between the organization and its environment - has been discussed by a number of authors (Pava and Krausz, 1997: 340) who suggest that such individuals are vital in fulfilling an organization's corporate social performance (CSP) mandate (Wood, 1994). The value of individuals capable of understanding and anticipating the complex organizational environment, and having the governance procedures in place for their voices to be heard should not be underestimated. The presence of such individuals or teams of individuals, at board level may in itself provide a competitive advantage for organizations (Petrick et al. 1999). It is argued that NEDs are in an unparalleled position for fulfilling this particular role. Figure 1 depicts the context in which NEDs operate; it illustrates the complexity and dynamic nature of their roles within the organization.

**Figure 1: The bounded context of the NED**



Source: Barratt & Korac Kakabadse 2002

## **The Research Approach**

An exploratory approach was adopted in this study to uncover the role and contribution of the Non Executive Director, particularly in terms of their impact on corporate social behavior. Semi structured interviews were undertaken with fourteen NEDs and a further six experts in the field from a number of industries. A profile of each interviewee was compiled using data sources; such as the internet (which proved very useful given the high profile of the interviewees) newspapers and company documents. Types of information in the interviewee profile include historical data, such as educational and work background; demographics, such as gender, age; information on the companies that they are both currently and have previously been involved with; and major business incidents, for example, involvement with organisations in difficulty, going through acquisitions or mergers etc.

Interviews generally took place at the individual's main office and lasted between one and three hours. Face-to-face interviews in the interviewee's own environment were particularly useful because a sense could be gauged of the individuals own personality and status. Interviewees were also considered likely to feel more relaxed in their own environment, which encouraged a more open debate. Each interviewee was treated as an individual case study.

## **Methodology**

Eisenhardt (1989: 548) argues that when little is known about a phenomenon, theory building from case studies is particularly appropriate; because it does not depend on prior literature or preceding empirical evidence. A case is a phenomenon of some sort occurring in a bounded context; essentially it is the unit of analysis (Huberman, 1994). Establishing the contextual boundaries of a research phenomenon is crucial (Yin 1984), particularly in qualitative research where the sheer quantity of data can rapidly spiral out of control, figure 1 highlights the context in which the individual NEDs were examined during the research.

As there is little existing theory that adequately explains the role of the NED; and as an initial stage of an ongoing research initiative into NEDs, the primary objective of this

exploratory study is to develop a number of propositions concerning the role of NEDs in impacting organisation's corporate social responsibility behaviour). To achieve this multiple case studies were developed and within-case and cross case analysis were employed to increase the generalisability of the findings, and to gain a greater understanding of the importance of context, in order to develop richer and more substantial descriptions and explanations (Miles and Huberman, 1992).

### **Selection of Cases**

The selection of cases in research studies is an important element of theory building (Eisenhardt 1989). Two methods of selecting cases were considered, statistical and theoretical sampling. Sampling from the general population of NEDs could be used for the selection of cases; however such an approach is unusual when theory building from case studies (Eisenhardt :1989). Furthermore, from a practical perspective, finding a sufficient number of interviewees with the right background is problematic in itself, given the limited number of candidates and the busy nature of their roles. Thinning the field still further through statistical sampling would be unlikely to reap the necessary volume of recipients. For these reasons theoretical, not statistical sampling was used (Glaser and Strauss 1967). Eisenhardt (1989) suggests that cases may be chosen to fill theoretical categories and provide examples of polar types of NEDs; and in doing so replicate or extend the emergent theory. Such an approach is supported by Pettigrew (1988), who suggests that given the limited number of cases which can typically be observed', it makes sense to choose cases such as extreme situations and polar types.

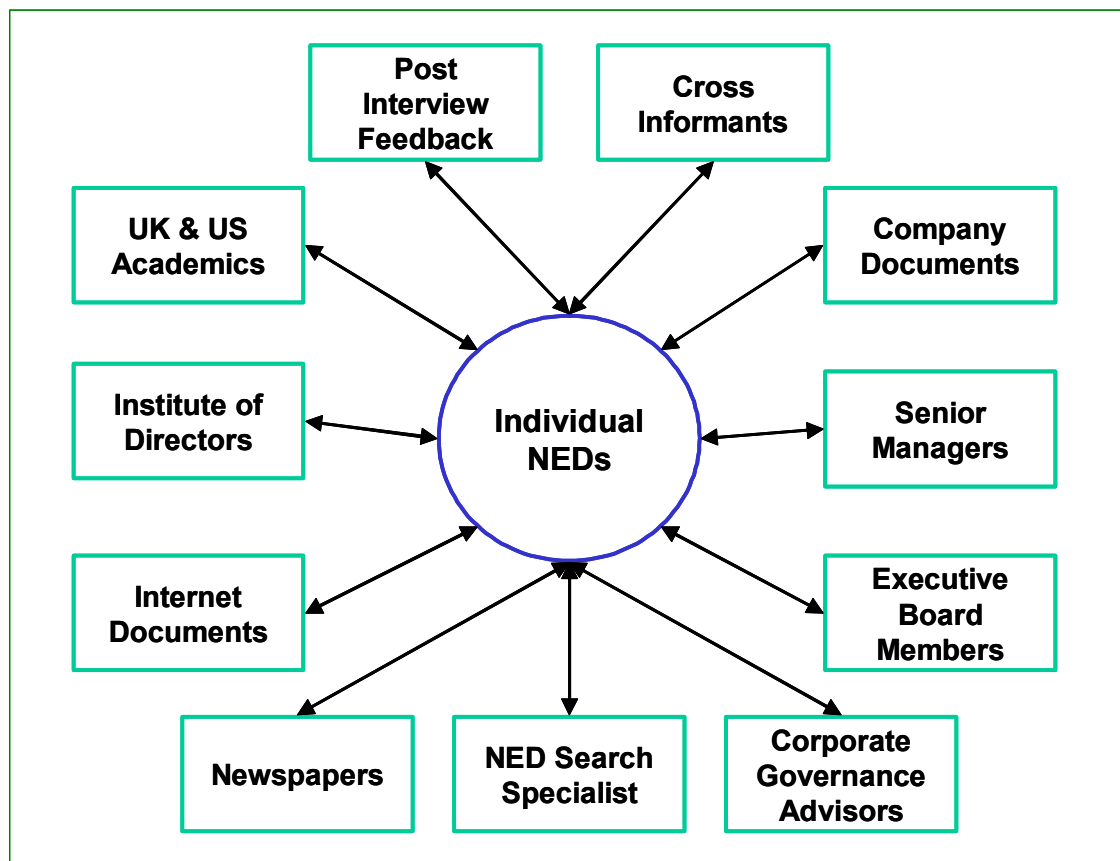
In the case of NEDs, prior to the interviews, it was difficult to isolate a particular type of NED as they frequently sit on a number of different and diverse boards; they tend to be of a similar age and male, with very similar educational and social backgrounds. For the research it therefore seemed to be advantageous to interview a broad range of NED types in the hope of identifying themes and propositions for a subsequent study.

### **Data Types and Triangulation**

During this research a number of methods were used to enhance data triangulation and improve the likelihood of accurate and usable findings. Firstly, data was collected from

multiple sources including the informants themselves, the internet, company documents, newspapers and key industry specialists/experts, which included a top UK-based NED search specialist, the Institute of Directors, a number of corporate governance advisors, executive board members and senior managers with responsibility for CSR. Informants were re-contacted to further refine the feedback from the initial interview. It was considered particularly helpful to question a broad spectrum of individuals during the exploratory research in order to fully understand the issues facing NEDs and the boards on which they sit. Figure 2 shows the various data sources, which have been used to cross-reference and corroborate the exploratory research findings and build a picture of the individual NED in his/her environment.

**Figure 2: Case Study Design Data Sources**

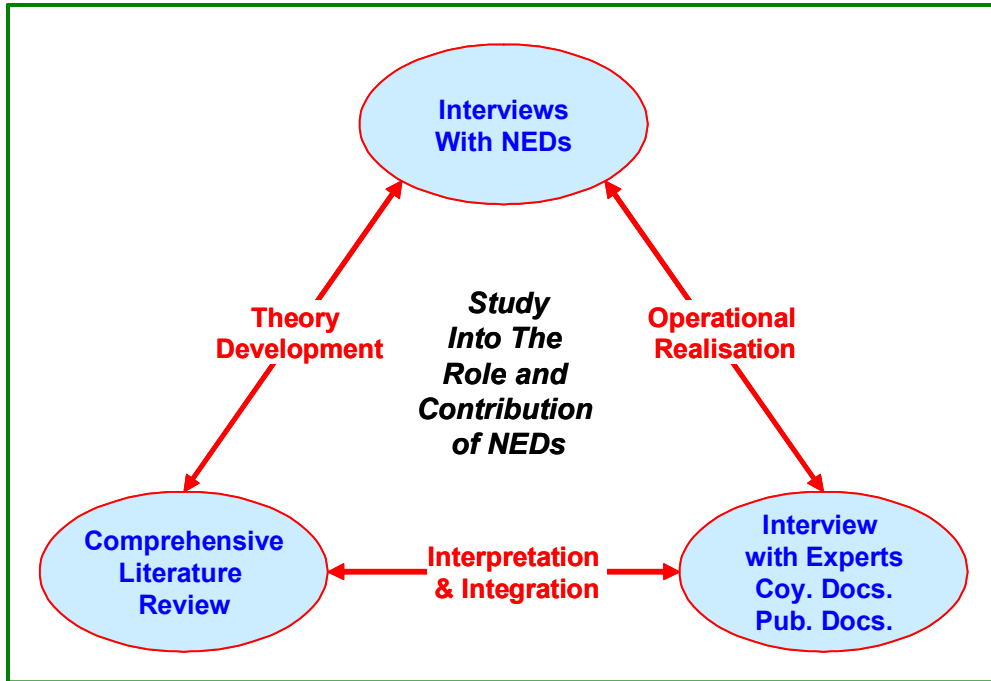


Source: Compiled by authors

The process of triangulation was further enhanced through the use of existing theories which were identified and developed during the literature review phase of the research,

and has facilitated the development of a deeper understanding of the underlying issues. Figure 3 shows how the various factors that have been discussed were brought together to strengthen the research findings. By using a multiple case methodology to demonstrate the replication of findings across cases, to investigate contrary findings in more depth, and check for the representativeness of interviewees and their evidence.

**Figure 3: Data Triangulation**



Source: Compiled by authors

### **Data Analysis**

Within-case analysis usually involves a detailed descriptive write-up of each individual case. They are often pure description but they are central to the generation of insight (Pettigrew, 1988). The idea is to become intimately familiar with each case individually as a standalone entity. In this way the unique patterns of each case can emerge before the researcher tries to generalise across cases (Eisenhardt 1989: 540). As case studies are completed Replication logic (Eisenhardt 1989: 542) has been applied in order to confirm emergent relationships, with this method each case study is viewed as a separate experiment, single case findings are successively tested within a succession of cases. This



method is particularly potent “when multiple cases are carefully ordered along a key dimension, powerful explanations are more likely” (Huberman, 1994).

### **Cross-case Analysis**

One weakness in the application of such a qualitative research approach may be the issue of replication, which is not the case with a positivistic survey approach. It is possible to overcome this through the use of cross-case analysis, which increases the certainty of replication in new situations without losing the rich context and uniqueness of individual case studies (Pettigrew, 1988). Furthermore, multiple cases not only help to identify the particular conditions under which a finding will occur; but also assists in outlining the more general categories, of how those conditions may be related (Miles and Huberman, 1992). Therefore, for each case in the exploratory study a table was developed to show themes and emergent issues. These tables could then be viewed side by side, to facilitate understanding of any connection (replication) that might exist across cases.

### **Key Findings**

The research has yielded some interesting results in terms of the role of the Board of Directors and specifically its NEDs, in enhancing corporate social responsibility within the organizations in which they operate and over the long term possibly in a wider group of organizations through their boundary spanning role.

They are divided here into themes as follows:

1. Bounded Rationality
2. Boundary Spanning and Enlightenment
3. The Business Case
4. Risk to Reputation

At the end of each theme a number of propositions are developed based on the findings from the research. These will be tested in the next phase of the research.

## **Bounded Rationality**

Bounded rationality relates to the inability of human beings to obtain and understand all the information necessary to make a fully informed decision and argues that we therefore make decisions based on our limited and incomplete knowledge of the world (Simon, 1957). Many of the NEDs within the research worked for very large companies, often with multiple businesses and thousands of employees. One NED who worked for a board with 23 million customers described board members understanding of the business in terms of a “patchwork quilt”:

*“So what you do is you created a bit of patchwork in the top left hand corner, that might be a license in Italy, you then perhaps went down to Spain and jumped into bed with (name removed) and thought well, we’ll do a deal here too, so there’s lots of little mini deals all over the place, it was extremely difficult for other non executive directors to assess the strength of that business.”*

The complexity of these organizations meant that the board worked mainly in financial terms. As one prominent NED put it

*“there was no discussion of anything other than the financial impact of something”.*

It would appear that there was often little opportunity for discussing “soft” issues. Boardrooms were generally not perceived as the appropriate place for developing social strategies. Individual projects were therefore primarily employed at a more regional or local level and were rarely discussed in the boardroom.

Although individual projects were rarely discussed an emerging phenomenon has been board members belief that they set the “tone” for the organization, this is particularly true in those organizations where board members are encouraged to become more deeply involved with the organization and make contact with the lower echelons. This is confirmed by managers that were interviewed as part of the study and report feeling that they were encouraged by the support of the board; one manager described the support that came from his company’s board.

*“I think we’ve got several people on our committee, who, in a sense have their own reputations to protect, and, and, don’t want to be associated with a company that,*

*will would differentially affect their reputation, so, we have their support from a high level I think from our non-executive directors about what we are doing here, as indeed we do from our executive directors, our chief executive is very supportive of what we are doing, so, I you know, there are obviously always limits to these things, whose business case has to be demonstrated, but once that is demonstrated, I think then in general, the requisite, signaling of priority from the top comes through clearly”.*

Many of these companies were also in the process of setting up board level committees to deal with issues of CSR, mainly at the behest of outside directors who brought experience of the importance of these issues, from outside the organization.

**Proposition 1:** NEDs working in complex organizations tend to work in almost exclusively financial terms.

**Proposition 2:** Where NEDs are involved with lower echelons they send a clear message of intent through the organization.

### **Boundary Spanning**

There has been a move during the last decade or so, by certain companies towards a more aggressive and public approach to CSR, companies such as Shell oil and BP have used it to enhance their public reputations. Others such as Marks and Spencer's, who have always followed a CSR code particularly in respect of their employees, have now opted to make this choice more public apparently in an attempt to boost what was a declining public image. The reasons for these changes in attitude are many fold but all are likely at some level to be seeking to improve organizational legitimacy in the eyes of customers, the market and with regulators. When interviewees were questioned about their own company's choices many answered that quite simply

*“it was the right thing to do”*

Moreover it was commonly felt that the company often owed much of its long-term success to this understanding of “the right thing to do” and that this is what in essence the board provided for the organization.

What is interesting in this study is the discovery that when individuals who sit on the boards or work closely with these already “enlightened” companies they appear to bring that knowledge and enthusiasm into the host organization and educate the other board members of its benefits. It is within these companies that board level CSR committees are being established. This example is of an NED discussing a fellow board member who comes from an “enlightened” company.

*“(name removed) who is one of our senior Non-Executive Directors, but who is also on the Board of (name removed), argued that we were not giving sufficient attention to this as a growing area of concern for investors and indeed governance and indeed the public more generally, in the age when the globalization of capitalism is under fire and it was actually quite interesting, again, the initial reaction by the (name removed) Board, including I would say the Chief Executive, tended to be more ‘this is kind of froth, you know, this is all a complete blind alley, this corporate social responsibility, this is not what business is about, it’s one of these elaborate con tricks’ and most of the Non-Executive Directors said ‘no, wrong, we do have to pay attention to this, it is a growing area and we need to get our act a bit more convincing”.*

What would appear to be happening is that those organizations that have to take a more public stand on CSR issues (such as BP) do so first, if you have a big customer base and you are in the public eye you do these things because you have to. However some of the companies in the study were not faced with this issue, they, despite their size had few customers, they dealt with governments or as middle men or their products were traded as commodities. These kinds of companies would appear not to have felt the pressing need to address CSR in the boardroom.

*“what you had there is a growing importance being attached at least to the public perceptions of (name removed) taking seriously corporate social responsibility and in fact I think that is translating into, you know, attitudes more generally in the company but it’s a little bit coming from behind and in a way there is an actual explanation for that because if you are (name removed), and you know, people are buying your product on the forecourts and so on, you have a very direct interface with a mass customer base. (name removed) isn’t like that and therefore to some extent, we could afford, as it were, to be in the middle of pack rather than leading it but we certainly couldn’t afford to be behind the pack and I think to some extent we’ve begun to make good”.*

Therefore the role of the boundary spanner in such organizations would appear to be crucial in ensuring the position of CSR on the boardroom agenda. Their role in educating

the board and ultimately the organization was described by a senior executive who was in charge of safety as follows:

*“he (the NED) said to chief executive and the executive directors that unless they improve their safety performance they will not improve capital. Fairly fundamental, and that has been made fairly clear at a number of different levels, (name removed) and the committee is absolutely uncompromising in his expectations of the executives on the committee about what he expects to see and I sort of sit in the middle. (name removed) says I want that to happen and I am saying, well, I have got to deliver you know, but I, I regard him as a powerful ally”.*

**Proposition 3:** NEDs believe that their companies owe much of their success to their understanding of the “right thing to do”

**Proposition 4:** NEDs who develop an understanding of CSR on one board often transplant that knowledge into other organizations with which they are involved.

### **The Business Case – what’s in a name?**

*“Well the minute you talk corporate social responsibilities, the average Chief Executive wants to be sick in his hat. He sees it as a break shoe, sees it as an impediment, whatever you’re going to tell him about it it’s going to be an impediment to profit. It means you can’t go mine at three cents an hour in Papua New Guinea or wherever”*

A particularly interesting finding from this study has been the discovery of distaste among board members for the term CSR, their confusion is described in the following quote from the study:

*“The whole thought is that it’s for the betterment of society. If you start changing the role of the corporate so that in fact you require the board to have a multi stakeholder approach, who do they put forward first? Is the employee sector more important than the say customer or is the customer more important than the shareholder? Or the shareholder more... It’s very hard for a board to have that confusion”*

This confusion appears to stems from their understanding that the role of the board is primarily to protect the shareholder, hence unless a business case can be clearly presented

for CSR it is a recipe for, as one NED put it, “*giving away company profits*”. The language of risk to reputation emerged as being more commonly used in the boardroom and a number of NED’s felt that this was a language that was much easier for them to understand and act upon. One organization went as far as to call their CSR committee, the committee for risk and reputation, by using this term board members were able to discuss CSR issues as hard financials rather than a soft difficult to pin down problem.

*“you cannot put mange tout in (name removed) if they have been picked by children of six with blisters on their feet. Your customers don’t want to know about all this but if they were to know about it they would be deeply unhappy. And that’s an ethical issue we said and they said don’t give us ethics. What are ethics? What’s right, those children might be supporting (pause) orphaned siblings. Quite right they were. So, we knew the issues were complex but put it in terms of risk to reputation and they can deal with it”*

**Proposition 5:** The language of the boardroom requires a clear business case for CSR, NEDs understand this best in terms of reputational risk.

### **Risk to Reputation – A common language?**

*“I’ll tell you what I think, the thing is that language of the boardroom is basically financial and I think what we are seeing is that the language is having to change and although we are not familiar with the language, we are now moving from the financial to the language of risk, and therefore you can start looking at something like reputation, not in terms of ethics and morality which most boards can’t deal with, I’ve never heard of a moral debate in the boardroom. Not once. But I’ve certainly heard good debates on an analysis of risk to perhaps an audit committee and I think quite a lot of what they need and what boards need today to debate, is the reputation being one of them. They can bring that in, under a lingua franca that is common to all of them, I mean let me take a risk to reputation”*

As already discussed the language of the boardroom is often financial, when first discussing issues of CSR with many NEDs it appeared that this financial speak lead to social responsibility issues being side lined, or left off the agenda completely. However as interviews developed, it became clear that although such issues were not discussed on a moral or ethical level, they were certainly discussed in terms of risk to reputation. Once reputation was established in these areas the board fought very hard to protect and nurture it and what is more it made certain ethical decisions very straightforward.

Some used the Johnson and Johnson example, where the decision was made to remove all product from the shelves after a sabotage incident led to worries about contamination, they perceived this as a decision that made itself, the reputation of the company as a good and ethical provider of a safe product made the decision an easy one, there was only one “right thing to do”.

Another described how within his own company if one food item was found to be suspect the entire batch would be disregarded, he described how a manager would simply know to do this because this was the reputation that the company was built upon and which was encouraged by the board.

*“the agenda should be driven off what are the risks, and particularly the non-financial risks to the company, and a lot of them are license to operate, reputational risk and so on, some of them are more immediate risks, so safety will be the number one, probably the number one item on the agenda of every meeting.”*

**Proposition 6:** Once boards develop working CSR policies for their organizations, they will work hard to defend and improve them.

## **Conclusions**

This research has explored the role and contribution of the individual NED within the Anglo-American governance structure. Its findings suggest that there is a growing interest among board members in how best to facilitate corporate social responsibility issues. It is argued that most boards discuss issues in terms of “the business case” but that they also believe that they set the tone for the organizations in which they operate, this finding would appear to be supported by interviews with key senior management. What is more this generation of “tone” would appear to be represented by the organizations external reputation as well as its internal identity. Once these elements are established within an organization, they create a clear understanding both for stakeholders and management about the desired long-term behavior of the organization, plus a useful financially translatable tool for the board in making its decisions.

The research also suggests that NEDs act as boundary spanners, in that they take their positive experiences from one board, and transplant them into others with which they are

involved. Given that many NEDs work on multiple boards at any one time, the effect of this contagion is likely to be significant. The research suggests that in this way NEDs who have experienced the benefits of CSR are planting the seeds for better corporate behavior into their host organizations.

### **Recommendations**

This research suggests a growing understanding among Board Members of the role of CSR in organizational success over the long term. Research of a practical nature is imperative, to ensure that useful guidance is in place; and to facilitate understanding of the role of NEDs in improving behavior in the organizations with which they operate.

The complex nature of the modern organization makes it harder and harder for NEDs to grasp the full scope of the business's they are expected to guide. Advocates of CSR need to tread a careful line to insure that "*would-be converts*" do not fall at the first hurdle, because of overly complicated stakeholder models. Boardrooms generally work in financial language and successful CSR policies must work within this system, the use of the language of risk to reputation is both understandable and quantifiable to the average NED.

This research has explored the role of NEDs within the so-called "*Anglo American*" system of corporate governance. A study of a larger sample of NEDs is now well underway with data collection almost completed. Comparative work would also now be very useful, examining other European and international methods of board influence, contribution and control. Additionally, the examination of different industries and organizations at different stages in their life cycle would be very useful as this study would suggest that despite the unique nature of boards there are commonalities of behavior across certain industries and that the needs of organizations at different stages in their life cycle vary considerably.



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